Testimony
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Mr. Chairman, Members of the Committee, thank you for this opportunity to discuss the North American Free Trade Agreement.

Trade and the U.S. Economy

Trade expansion is a key component of the President's economic policy program for The U.S. Over the last four years -- a period which achieved the lowest combined rates of unemployment and inflation since the 1960s and an unprecedented investment led expansion -- one third of our economic growth has come from increased exports. With this in mind, this Administration is determined to continue the vigorous effort to both open foreign markets and level the global commercial playing field and promote the expansion of our exports and trade.

More than 11.5 million U.S. jobs now depend on exports -- an increase of 1.7 million from just four years ago. These are good jobs: the wages of jobs supported by goods exports are 13-16% higher than non-trade-related jobs in the economy. It is imperative we continue our efforts to generate more of these jobs for The U.S. as we enter the 21st century.

The U.S. is competing successfully across a wide array of sectors. In fact, our economy has been judged to be the most competitive large economy in the world for the last five years. Our economy is the envy of the world, and positions us to succeed to an unparalleled degree as we enter the next century. In the last four years, exports of manufactured goods increased 42%; high technology exports increased 45%, services exports, 33%; and agricultural exports, 41%; all to record highs.

Our ability to sustain growth and prosperity in the years to come depends significantly upon our ability to tap effectively into emerging markets, particularly in Asia and Latin America which are projected to grow at rates three times the U.S. growth rate, while at the same time remaining vigilant in our efforts to open the mature economies of our traditional trading partners. In the global economy, more than 95 percent of the world's consumers reside outside the United States. Of the more than 30 million annual additions to the world's middle-class and upper-class consumers, an estimated three quarters are found in emerging markets and other low and middle income countries. Latin America alone, if current trends continue, will exceed both Japan and Western Europe combined as an export market for U.S. goods by the year 2010. Already, Latin America is our fastest growing export market, even though the tariffs within the region average four times higher than the average U.S. tariff. Similarly, the Asian Pacific Rim has been our second fastest growing export market in recent years, but again its market access barriers are also significantly higher than U.S. barriers. The elimination of market access barriers in the global marketplace is fundamentally in the interests of The U.S. given that The U.S. is the most competitive large economy, and the most open large economy in the world.

NAFTA and U.S. Trade

The NAFTA, which encompasses the world's largest free trade area, was created to help the United States capitalize on the changes in the global economy by opening the North American economy. Unprecedented in scale and complexity, the NAFTA was a strategic step forward for U.S. trade policy. Only three and one-half years into its fifteen year implementation process, it has already yielded benefits for U.S. citizens. The President's July Study indicates the NAFTA has had a positive impact on our GDP, employment, income, investment, and wages.

Two-way trade with our NAFTA partners has grown 44 percent since the NAFTA was signed, compared with 33 percent for the rest of the world. U.S. trade with our North American partners accounts for nearly one-third of our trade with the world.

Between 1993 and 1996, U.S. goods exports to Canada were up by 33.6%, to $134.2 billion. U.S. exports to Mexico grew by 36.5% -- or $16.2 billion -- from 1993 to a record high in 1996, despite a 3.3% contraction in Mexico's domestic demand and a 14 percent drop in 1995 alone.

Outstanding progress has continued into this year. In the first six months of 1997, Mexico and Canada accounted for 49 percent of the growth in total U.S. exports. U.S. exports to Mexico were up nearly 23 percent from the same period in 1996, and 1996 was a historic high - a remarkable accomplishment considering Mexico underwent its worst economic downturn in modern history in 1995. U.S. exports to Canada in the first six months of this year are up 12 percent over last year's historic high as well. Perhaps even more remarkable, U.S. exports to Mexico in the second quarter of this year exceeded U.S. exports to Japan, even though Mexico's economy is one-twelfth the size of Japan's.

NAFTA's Effect on Trade Barriers

The NAFTA is accomplishing what it was designed to do: gradually eliminate the tariff and non-tariff barriers to trade and investment in North America. This is particularly important to the U.S. given the historic inequity that exists in the relative openness of the markets in North America. Under the NAFTA, Mexico has reduced its trade barriers significantly and dismantled protectionist rules and regulations, while the United States -- which started with much lower tariffs and market access barriers generally -- has made only slight reductions.

For example, before the NAFTA, Mexican applied tariffs on U.S. goods averaged 10 percent. U.S. tariffs on Mexican imports averaged 2.07 percent, and over half of Mexican imports were already entering the United States duty-free.

Since the NAFTA, Mexico has reduced its average applied tariffs on U.S. imports by 7.1 percentage points, compared with a reduction of 1.4 percentage points by the United States. The United States, it should be noted, would have reduced some of these tariffs under the Uruguay Round, even in the absence of NAFTA.

Beyond tariffs, the NAFTA requires improvements in Mexico's intellectual property rights regime, standards setting, the elimination of trade balancing requirements and other performance requirements. The United States is required to do relatively little in this regard given our longstanding openness to commerce that has served us well, our advanced intellectual property rights regime, transparent standards setting procedures, open investment regime and relative lack of non-tariff trade barriers more generally.

NAFTA's Effect on Jobs in the U.S. Economy

The President's Study reviewed findings from a variety of outside studies and analyzed both Mexican and U.S. data, attempting to isolate the effects of the NAFTA from other factors. Isolating NAFTA's effects on the U.S. economy is challenging since it has only been in effect for three years and events such as Mexico's severe recession, the depreciation of the peso, and U.S. tariff reductions under the Uruguay Round occurred during the same period. However, the NAFTA's results and resilience so far give us plenty of reason for optimism.

Based on a careful review of studies from a variety of prestigious institutions, the Administration concludes that the NAFTA has contributed to our current economic expansion and has had a modest positive effect on net exports, income, investment and jobs supported by exports. The Study finds that the NAFTA is facilitating investment and the creation of higher than average paying U.S. jobs supported by exports to Mexico.

Goods exports to Canada and Mexico supported an estimated 2.3 million jobs in 1996. This represents an increase of 311,000 jobs since 1993 -- 189,000 supported by exports to Canada, and 122,000 by exports to Mexico. DRI estimates that NAFTA contributed $13 billion to U.S. real income and $5 billion to business investment in 1996, controlling for Mexico's financial crisis. These estimates suggest that the NAFTA's impact, isolated from other factors, has boosted jobs associated with exports to Mexico between roughly 90,000 and 160,000.

An earlier study by the Dallas Federal Reserve finds that NAFTA raised exports by roughly $7 billion and imports by roughly $4 billion. The relatively greater effect on exports partly reflects the fact that, under NAFTA, Mexico reduced its tariffs roughly 5 times more than the United States.

In implementing NAFTA, both the Administration and the Congress recognized that while expanded trade provided real opportunities, there would also be some worker dislocation. The Trade Adjustment Assistance Program and the new NAFTA Transitional Adjustment Assistance Program provide the tools for trade-impacted workers to obtain the skills they need to adapt to the global economy. These programs are an important commitment to American workers.

NAFTA’s Effect on Wages

The President’s Study indicates that the NAFTA is helping to generate additional U.S. export supported jobs paying higher than average wages by providing competitive enterprises and workers with new opportunities. Increased exports and trade leads to greater productivity, and greater productivity is the key to higher incomes.

In the United States, real earnings are up over the period from 1993 to July 1997, with the gains coming in recent quarters: real hourly earnings, up 1.9%; real weekly earnings, 1.6%. The real incomes of every quintile of the workforce increased between 1993 and 1996, with the largest percentage increase for those in the lowest quintile. Furthermore, a CEA/Department of Labor study found that from February 1994 to February 1996 more than 68% of the new jobs created paid above the median wage.

NAFTA's Effect on The Mexican Economy

The NAFTA has also helped Mexico’s economy, which is in our interests, both indirectly and directly. In 1995, Mexico experienced its most severe economic recession since the 1930s. Comparing Mexico's recovery in 1996 with its recovery from its financial crisis in 1982, when the NAFTA was not in effect, reveals that both the Mexican economy and U.S. exports recovered more rapidly following the 1995 crisis, in part because of the economic reforms locked in by the NAFTA and its market opening requirements. Mexico's strong economic adjustment program and bilateral and multilateral financial support were also important.

Following the 1982 financial crisis, Mexican output drifted down for nearly two years before rising again and did not recover to pre-crisis levels for five years. Although Mexican economic output dropped more quickly in 1995, it also rebounded more quickly, reaching pre-crisis peaks by the end of 1996. Similarly, following the 1982 crisis, it took Mexico seven years to return to international capital markets, while in 1995 it took seven months.

Following the 1982 financial crisis, Mexico raised tariffs by 100 percent and clamped down on imports with severe licensing requirements; U.S. exports to Mexico fell by half and did not recover for nearly seven years. In 1995, Mexico continued to implement its NAFTA obligations even as it raised tariffs on imports from other countries. As a result, U.S. exports recovered in 18 months and were up nearly 37% by the end of 1996 relative to pre-NAFTA levels, even though Mexican demand over the period was down 3.3%. Furthermore, the U.S. gained an even greater share of Mexico’s import market through this period. For example in agriculture:

- U.S. agricultural exports to the NAFTA countries have increased from $8.87 billion in 1993 to a record $11.59 billion in 1996. The United States had an agricultural trade surplus of over $1 billion with its NAFTA partners in 1996.

- U.S. export performance with Mexico has been particularly strong, with exports increasing nearly 15 percent per year, on average, between 1993 and 1996, to a record $5.4 billion. The twelve fastest-growing commodities--corn, pork, soybeans, wheat field seeds, vegetable oils, cotton, sugar and related products, barley, pulses, beef and veal, rice, and soybeans--together increased $2 billion, more than 150 percent.

- U.S. agricultural exports to Canada grew nearly 5 percent per year between 1993 and 1996, to a record $6.1 billion. Twelve commodities--corn, pork, cotton, orange juice, sugar and related products, hides and skins, beverages except juice, soybean meal, wine, peanuts, field seeds, and rice--as a group, increased $382 million, up 42 percent from 1993.

- Some of the biggest gains in U.S. exports to Mexico due to NAFTA have been for sorghum, cattle, beef, dairy products, apples and pears. U.S. exports of these products were 10 to 30 percent higher in 1996 than they would have been without the agreement.

- U.S. agricultural suppliers hold dominant market shares in both Canada and Mexico. In 1996, the U.S. share of Canada's total agricultural imports was 65 percent and the U.S. share for Mexico was 76 percent. NAFTA preferential tariff rates helped U.S. suppliers solidify, and expand, their market share.

NAFTA's Effect in Key Sectors

Under the NAFTA, U.S. suppliers in many other sectors hold dominant shares of Mexico's import markets and, in some cases, have expanded their shares significantly at the expense of suppliers from other countries. These increases are indicative of the NAFTA's effects, since they control for factors that affect all foreign suppliers similarly, such as Mexico's recession.

U.S. suppliers have seen their share of Mexico's import market grow from 69.3% to 75.5%, a reflection of their 10 percentage point average tariff advantage over foreign suppliers. Mexico's share of U.S. imports has risen from 6.9% to 9.3%, is less than half the percentage point gain in market share attained by U.S. suppliers.

In key sectors where Mexico has cut tariffs, the U.S. has gained market share. In the textiles sector, where Mexico has cut textiles tariffs by 10.7 percentage points under the NAFTA, the U.S. share of Mexican imports is up 17.2 percentage points, to 86.4%. In the transport equipment sector, where Mexico has cut tariffs 10.2 percentage points under the NAFTA, the U.S. share is up 19.2 percentage points, to 83.1%,. And in the electronic goods and appliances sector, where Mexico has cut tariffs by 9.0 percentage points, the U.S. share is up 5.7 percentage points, to 74.3 percent.

In industries such as autos, chemicals, textiles and electronics, NAFTA is permitting U.S. companies to achieve synergies across the North American market, improving their strategic positions abroad and contributing to strong growth in employment, production, and investment at home.

In several industries that have experienced strong U.S. import growth from Mexico, Mexican imports have largely displaced imports from other regions, which have lower U.S. domestic content. In the textile and apparel industry, the share of U.S. imports supplied by Mexico rose from 4.4% in 1993 to 9.6% in 1996, while the share of U.S. imports from China, Hong Kong, Taiwan and Korea fell from 39% in 1993 to 30% in 1996. Close to two thirds of the value of Mexican apparel imports in 1996 was comprised of U.S. content whereas the U.S. content of apparel imports from these Asian suppliers is minimal or zero.

Labor Protection

The NAFTA is working for both industry and labor. The North American Agreement on Labor Cooperation (NAALC) that was established by the NAFTA has generated cooperation on fundamental labor issues and enhanced oversight and enforcement of labor laws.

The NAALC submission process subjects member governments to public and international scrutiny for alleged failure to enforce of labor laws. The submission process has contributed to such outcomes as the recognition of a union for the first time and the holding of secret representation union ballots at one company and one federal government department where union representative votes previously were generally not secret. The combination of stepped up cooperation on a variety of labor issues and the submission process is contributing to progress.

Between 1993 and 1996, Mexico’s Secretariat of Labor and Social Welfare increased funding for the enforcement of labor laws by almost 250% in real terms. Mexico has reported a 30 percent reduction in the number of workplace injuries and illnesses since the NAFTA was signed. Mexico has issued new occupational safety and health regulations that break new ground in providing protection to workers, including construction and agricultural workers and pregnant women.

Under the NAALC, the Canadian, Mexican, and U.S. governments have initiated cooperative efforts on a variety of labor issues, including occupational safety and health, employment and training, industrial relations, worker rights and child labor and gender issues. As these efforts continue, the capacity of our respective governments to effectively enforce fundamental labor laws and improve working conditions and worker protections increases.

Environmental Protection

The NAFTA also includes mechanisms to address environmental problems that have long challenged communities along our 2000-mile border with Mexico. In many respects, the NAFTA's environmental agreements are generating unprecedented regional cooperation on broad environmental issues and improved enforcement of environmental laws in North America.

Environmental institutions established under the NAFTA are certifying and financing infrastructure projects designed to improve the environment along the U.S.-Mexico border. To date, 16 projects with a combined cost of nearly $230 million have been certified by the Border Environment Cooperation Commission (BECC). More generally, the North American Development Bank (NADBank) will be able to leverage its capital into $2 to $3 billion in lending. Construction has already begun on seven projects, including a water treatment facility in Brawley, California and a water supply project in Mercedes, Texas.

The NAFTA Commission for Environmental Cooperation, or CEC, has strengthened trilateral cooperation on a broad range of environmental issues, including illegal transboundary shipments of hazardous wastes, endangered wildlife, and the elimination of certain toxic chemicals and pesticides.

Through the CEC, Mexico has agreed to join the United States and Canada in banning the pesticides DDT and chlordane, helping ensure that these long-lived, toxic substances no longer cross our border from Mexico. Also, the CEC recently released the first annual pollutant release and transfer register published for North America.

The United States and Mexico have launched a Border XXI Environmental Protection program establishes five-year objectives for a cleaner border environment and a blueprint for achieving them. U.S. and Mexican officials are continuing to reduce emissions from vehicles at border crossings, tracking transboundary shipments of hazardous wastes, and operating and U.S.-Mexico Joint Response Team to minimize the risk of chemical accidents, among other activities.

Mexico has established a voluntary environmental auditing program, which has completed audits of 617 facilities to date. Of these, 404 companies have signed environmental compliance Action Plans representing more than $800 million in environmental investments in Mexico.

Mexico reports a 72% reduction in serious environmental violations in the maquiladora industry since the NAFTA was signed, and a 43% increase in the number of maquiladora facilities in complete compliance.

Clearly the longstanding problems in the border region have not all been resolved. But the NAFTA's environmental institutions are providing new and powerful tools to address many of these problems that were decades in the making.

Conclusion

The NAFTA is bringing fairer trade to North America. No one can dispute the fact that the NAFTA is gradually accomplishing its central objective of opening the Mexican market -- our second largest export market in the second quarter of 1997, with plenty of room to grow -- to a far greater degree. Mexico's economic reform process is largely locked in by the comprehensive rules of the NAFTA, and the agreement encourages even more market-oriented reforms. Furthermore, the NAFTA expands upon the previous U.S. - Canada Free Trade Agreement by increasing U.S. capacity to service the Canadian market.

Open trade is not an end in itself; the long-term, well-being of the American people, including the economic security of U.S. workers must always be paramount. Furthermore, the NAFTA - as important as it is - is not the prism from which all elements of U.S. trade and investment policy now and in the future should be viewed. We need to be global and multifaceted in our trade policy and agreement strategies to succeed in the vast world marketplace. We are also convinced that the NAFTA and other market opening agreements as well as those we will negotiate working with Congress are in the interests of the U.S. economy and its workforce.

Mr. Chairman, we must continue to chart the important course that builds on our strength to ensure that we open markets around the world and fight for fairness in the global trading arena. I will be happy to take questions.